IPEC

IPEC LTD. 1998 ANNUAL REPORT

IPEC Ltd. is an oilfield services company headquartered in Calgary, Alberta. Since its inception in 1997, the Company has successfully implemented a growth strategy based on acquisition, consolidation and integration of complementary oilfield service businesses, and now comprises three divisions. The Small Diameter Pipeline and Oilfield Construction Division provides services primarily relating to the installation of pipelines and gathering systems. The Tubular Division is involved in the domestic and international distribution of tubing and casing, drill pipe, line pipe, green tubes and structural steel products and in the precision threading of oilfield tubulars. The Production Equipment Division designs, engineers and manufactures separators, heat exchangers, dehydrators and other oilfield production equipment.

IPEC is in a strong position to take advantage of growth opportunities that will add further operational strength and shareholder value.

IPEC trades on The Alberta Stock Exchange under the symbol IPE.

NOTICE OF ANNUAL GENERAL MEETING THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF IPEC LTD. WILL BE HELD ON TUESDAY, JUNE 29, 1999 AT 9:00 A.M. IN THE LAKEVIEW ROOM AT THE WESTIN HOTEL, 320 - 4TH AVENUE S.W., CALGARY, ALBERTA.

CONTENTS

HIGHLIGHTS

For the year ended December 31, 1998, IPEC's first full year of operations as a public company

	1998
Revenue	$ 58,016,000
EBITDA (before inventory writedown)	$ 6,390,000
Funds Flow from Operations	$ 4,536,000
Per share (fully diluted)	$ 0.14
Earnings	$ 2,091,000
Per share (fully diluted)	$ 0.07
Working Capital	$ 4,523,000
Long-term Debt	$ 6,981,000
Shareholders' Equity	$ 12,477,000
Debt-to-Funds Flow Ratio	1.5
Debt-to-Equity Ratio	0.6
Acquisitions and Capital Expenditures, Net	$ 17,160,358
Average Common Shares Outstanding	22,665,000

MARCH 1998

- IPEC Ltd. began trading under the symbol IPE on The Alberta Stock Exchange
- IPEC acquired Christianson Pipe Ltd., IPEC (Cyprus) Limited, J.W. Williams, Inc., and Grey-Mak Pipe, Inc., effective January 1
- IPEC completed a $7 million Special Warrants equity financing to fund growth

APRIL 1998

- IPEC signed strategic distribution agreement with Baosteel America Inc., giving IPEC (Cyprus) distribution rights in North America for tubular products manufactured by Baosteel in China

JUNE 1998

- IPEC converted all preferred shares and Special Warrants to common shares on a one-to-one basis simplifying its capital structure

JULY 1998

- IPEC completed the acquisition of Commanche Construction Ltd., the first company acquired as part of IPEC's Small Diameter Pipeline and Oilfield Construction Division

JANUARY 1999

- IPEC continued strengthening its Small Diameter Pipeline and Oilfield Construction Division by completing the acquisitions of Band-Jo Oilfield Services Ltd. and Silverdale Welding and Construction Ltd., two pipeline construction companies operating in different geographical areas of Alberta

MARCH 1999

- IPEC completed private placement of 9,928,810 common shares for gross proceeds of $10.4 million, further strengthening the Company's financial capacity

LETTER TO THE SHAREHOLDERS

Despite a challenging environment, IPEC Ltd. completed five acquisitions and raised $7 million in equity financing to emerge with a strong balance sheet and solid cash flow, well-positioned for its next phase of growth.

THE YEAR IN REVIEW

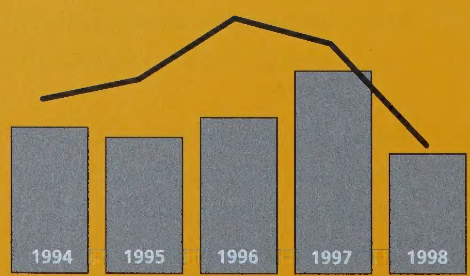
The past year presented significant challenges to the oil industry. A 30% decrease in the price of the benchmark West Texas Intermediate crude oil resulted in significantly reduced exploration and production cash flows and a shift of equity market interest from oil and gas to other sectors. The consequent lack of funding led to a 41% reduction in drilling and the postponement of exploration and development projects across western Canada, which in turn resulted in increased competition for business among oil and natural gas service companies. The relative stability in natural gas prices only slightly offset the impact of low oil prices. Despite this challenging environment, IPEC Ltd. completed five acquisitions and raised $7 million in equity financing to emerge with a strong balance sheet and solid cash flow, well-positioned for its next phase of growth.

ACQUISITIONS HIGHLIGHT IPEC'S 1998 ACTIVITIES

In keeping with the Company's growth strategy of establishing a presence in the oil and natural gas service sector, IPEC began the year with the planned acquisitions of four companies, Christianson Pipe Ltd.; IPEC (Cyprus) Limited; J.W. Williams, Inc.; and Grey-Mak Pipe, Inc. Christianson Pipe and IPEC (Cyprus) are both in the business of procuring and distributing tubing and casing, drill pipe, line pipe, green tubes and structural steel products. Grey-Mak specializes in end finishing, or threading, of casing and tubing to API and premium specifications. J.W. Williams manufactures oil and natural gas processing systems and related modular components.

Oil and Gas Wells Drilled in Canada
Compared to
West Texas Intermediate Prices

Sources:
Canadian Association of Oilwell Drilling Contractors,
BP Statistical Review of World Energy 1998



	1994	1995	1996	1997	1998
Number of Oil and Gas Wells Drilled in Canada	11,871	11,062	12,695	16,484	9,744
Spot Crude Price (U.S. dollars/bbl)	$17.21	$18.42	$22.16	$20.61	$14.40

IPEC's growth strategy includes further development of its small diameter pipeline and oilfield construction business via a phased approach to acquisition, consolidation and integration. Commanche Construction Ltd., acquired in July, represented the first acquisition. Two other pipeline construction companies, Band-Jo Oilfield Services Ltd. and Silverdale Welding and Construction Ltd., were acquired effective January 1999. Further acquisitions are being considered.

In addition to acquisitions, IPEC achieved internal growth on a number of fronts. Christianson Pipe expanded its supply base by obtaining a contract with Prudential Steel's new mill in Longview, Washington. J.W. Williams experienced record sales. Grey-Mak continued to service other resource-based industries in addition to its customer base in the petroleum industry.

FINANCIAL RESULTS AND ACTIVITIES FOR 1998

Revenue for 1998 amounted to $58.0 million, resulting in funds flow from operations of $4.5 million or $0.14 per common share on a fully diluted basis, and earnings of $2.1 million or $0.07 per common share on a fully diluted basis after a non-cash inventory writedown of $1.7 million.

Financing activities during the year included a $7 million Special Warrants issue in March to fund the acquisitions of Christianson Pipe, IPEC (Cyprus), Grey-Mak and J.W. Williams. In June, IPEC converted all outstanding preferred shares and Special Warrants to common shares on a one-to-one basis. At year end, the Company had 26,957,800 common shares outstanding. Subsequent to year end, IPEC completed a private placement in March 1999, of 9,928,810 common shares for gross proceeds of $10.4 million to partially fund the acquisitions of Band-Jo Oilfield Construction Ltd. and Silverdale Welding and Construction Ltd.

BOARD RE-ORGANIZATION

In April 1999, IPEC's Board of Directors re-organized to reflect a renewed focus on operations, and to facilitate the integration of current and future acquisitions. I assumed the role of Chairman of the Board, having previously served as Acting Chairman, and Mr. R.T. (Tim) Swinton assumed the role of Acting Chief Executive Officer of the Company. Mr. Dwayne Howrish and Mr. Robert Christianson remain on the Board, but have stepped down as Vice Chairmen, those positions now being redundant. Mr. Doug Cutts and Mr. Curtis Bartlett have resigned their Board positions, and Mr. Cutts has left the Company to pursue other interests.

IPEC wishes to thank departing Board members for their advice and support during the Company's critical initial stages. The Company would especially like to acknowledge the efforts of Doug Cutts: during his eighteen months' tenure, IPEC acquired eight oilfield service companies and completed related equity and bank financings.

OBJECTIVES AND STRATEGY FOR 1999

Initially, industry conditions for 1999 were forecast to be similar to those of 1998; however, in light of the recent improvements in oil prices, exploration and production companies are reassessing their capital budgets for 1999, and the number of projects directly relating to IPEC's businesses should increase. Although IPEC is optimistic as to industry activity levels, given the current lack of oilfield activity due to spring break-up, and the relatively short period during which its customers have enjoyed higher oil prices, the amount of customer activity post break-up and later in 1999 remains difficult to forecast.

IPEC emerged from the challenging environment of 1998 with a strong financial position, stable operations base and solid strategy. With improvements to the operating environment anticipated in 1999, the Company is looking forward to a year of accelerated growth and profitability.

Martin A. Lambert
Chairman of the Board
May 5, 1999

REVIEW OF OPERATIONS

IPEC's operational focus in 1998 comprised internal growth of existing business units, harvesting rationalization opportunities and maintaining market share during difficult market conditions.

INTRODUCTION

IPEC has a philosophy of acquiring well-managed companies with a history of operating profitably throughout the cycles experienced in the oil and gas service industry. Consequently, IPEC has an operating base which remained profitable during the industry downturn. This, combined with a strong balance sheet, affords IPEC the ability to benefit from further acquisition opportunities as well as to expand its existing business base in readiness for a more profitable business climate.

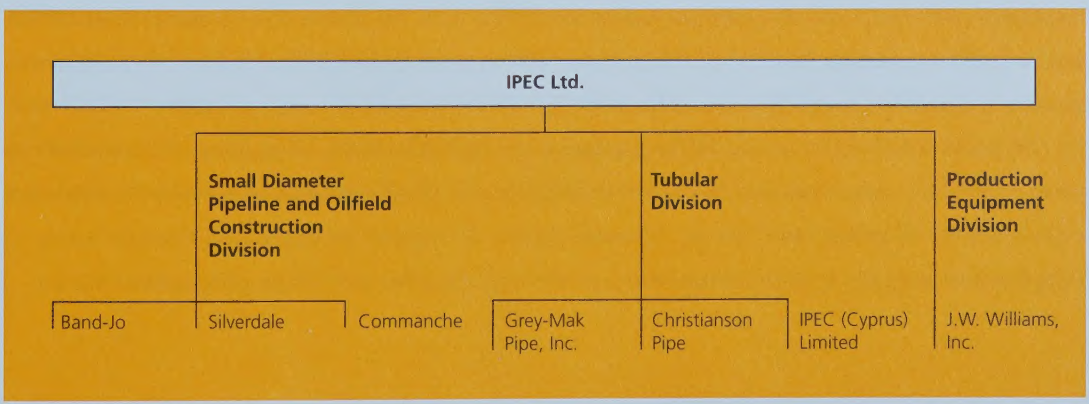
REVIEW OF OPERATIONS

IPEC's strategic plan is based on acquisition, consolidation and integration of complementary oilfield services companies. The Company's progress to date has resulted in the Company operating primarily in three production-based segments of the resources services sector.

- procurement, distribution and finishing of oil country tubular goods and related products
- small diameter pipeline and oilfield construction
- engineering and manufacture of oilfield production equipment

IPEC's operational focus in 1998 comprised internal growth of existing business units, harvesting rationalization opportunities and maintaining market share during difficult market conditions.

IPEC's acquisition strategy involves selecting candidates where operating synergies and rationalization opportunities, such as optimizing equipment utilization, facilities use, sales coverage, and purchasing power, exist and can be properly implemented to strengthen the capability and integrity of IPEC's operations.



SMALL DIAMETER PIPELINE AND OILFIELD CONSTRUCTION DIVISION

IPEC's goal with respect to the Small Diameter Pipeline and Oilfield Construction Division is to profitably expand operations to cover the Western Canadian Sedimentary Basin through the internal growth of IPEC's existing pipeline construction business and through acquisition. Currently IPEC operates three non-union small diameter pipeline construction businesses, which provide geographical coverage of southeastern Alberta, east central Alberta and western Saskatchewan.

Commanche

Commanche has operated from the Medicine Hat, Alberta area since 1976. In addition to its principal pipeline construction business, Commanche's work experience includes a broad range of oilfield construction and maintenance projects. The Company's expertise includes the custom manufacturing and installation of subsurface facilities throughout the Suffield military range. Commanche's reputation, coupled with its well-maintained equipment fleet makes the Company a preferred contractor in southeastern Alberta and surrounding regions. In 1998, Commanche was primarily involved in natural gas related projects, including many large, multi-well programs.

Band-Jo

Band-Jo has operated from the Brooks, Alberta area since 1987 and has become one of the predominant pipeline construction companies working in the active southeastern and central Alberta areas. A working relationship has been developed between Band-Jo and Commanche allowing these companies to work together regionally as well as to expand their potential market by moving equipment spreads to other locations. Band-Jo has benefited from the synergy arising from being a member of the IPEC pipeline division. This association has provided access to a larger equipment fleet and a broader customer base, confirming IPEC's strategy for this market segment.

Silverdale

Silverdale has operated from the Lloydminster area since 1983. The Company specializes in pipeline installation and repairs and also performs facility installation and civil construction projects. Silverdale has worked as far north as Ft. McMurray, Alberta and as far south as Swift Current, Saskatchewan, receiving numerous awards for its excellent record for safety and quality control in both provinces.

Silverdale is located in an area of the province with significant heavy oil reserves, where commodity prices sometimes cause considerable swings in the amount of oil-related activity. However, in such circumstances, Silverdale now has an increased ability to expand its operations through access to equipment to augment its own 80-unit fleet and through the inherently larger geographical market.

PRODUCTION EQUIPMENT DIVISION

J.W. Williams, Inc.

J.W. Williams, Inc. provides design, engineering and fabrication services to the petroleum, petrochemical, gas processing and mining industries. Established in Casper, Wyoming in 1963, the Company now serves markets in the United States, Canada and internationally with its primary market being the gas-prone U.S. Rocky Mountain Basin in which its manufacturing facilities are located. The Company's products include processing systems and gas plants, and modular components such as pressure vessels, air cooled exchangers, oilfield storage tanks and oil and gas separators.

During 1998, J.W. Williams experienced a record year, with the highest sales in the Company's history arising from an increased focus on natural gas activity in Wyoming, its prime market, as well as from an aggressive marketing program.

Chriscor

Chriscor was established in 1994, and since that time has been focused primarily on research and development. Chriscor's products now include the Scroll-Loc Pump Anchor, Downhole Water Injection Tool, Uphole Water Injection Tool and the Isolation Tool. IPEC is currently considering alternative ways of maximizing its investment in these products.

TUBULAR DIVISION

IPEC (Cyprus)

The first two quarters of 1998 established a record year for the distribution of tubular products by IPEC (Cyprus) Ltd.; however, the collapse in oil prices significantly reduced the demand for tubular products by the third quarter of 1998. This decline in demand, coupled with the late delivery of material, resulted in pipe inventories well in excess of planned inventory positions. Although the quality of the pipe is high, the lack of demand reduced the current market price for steel pipe. A market evaluation of inventories held at December 31, 1998 led to a writedown of the carrying value to levels appropriate to then current market conditions.

Highlights for IPEC (Cyprus) Ltd. in 1998 include the distribution agreement with Baosteel America Inc. and strong sales. In December, IPEC (Cyprus) also facilitated the sale of Scroll-Loc Pump Anchors into the international market. One of the objectives for IPEC (Cyprus) in 1999 is to expand, on a profitable basis, the international distribution of IPEC Ltd. produced products.

Grey-Mak Pipe, Inc.

Established in 1978, Grey-Mak is based in Casper, Wyoming, and specializes in end finishing, or threading, of casing and tubing to API and premium specifications in the Rocky Mountain area. Grey-Mak is also involved in the precision machining and sale of oilfield tools, pipe, couplings, thread protectors and other accessories directly related to the oil and natural gas industry. The Company serves a customer base which includes steel mills, major pipe distributors and oil companies active in the Rocky Mountain Basin as well as mining companies and water well service companies.

During 1998, Grey-Mak continued to expand its market into resource industries beyond oil and natural gas. The demand for products from the natural gas and mining sectors somewhat offset the reduction in oil-related projects. Grey-Mak also continued to obtain additional licences for its premium threading work for manufacturing. In 1999, the Company plans to maintain its market share in existing markets and to expand its geographical service area.

Christianson Pipe

Christianson Pipe is actively involved in the distribution of structural or commercial grade pipe and hollow structural sections. Pipe that cannot be graded as prime product is classified, by producing mills at the time of manufacturing, as structural grade pipe and/or limited service pipe. Christianson sells this grade of material into the oil and gas construction industry for piling and other structural purposes. Other markets include the construction, steel fabrication, agriculture, mining and snow making industries. Markets for the structural product include both Canada and the United States.

The year began on a very positive note with Christianson Pipe selling a record amount of product during the first quarter. These sales correlated directly with the record steel pipe output Canadian manufacturers enjoyed in 1997. Sales in the second and third quarters, however, were significantly lower due largely to a decline in mill activity and corresponding lack of product. Demand for product remained relatively constant; however, the Company's inventory was insufficient to meet customer requirements. In the fourth quarter, shipments from suppliers resumed at a moderate level and continued at this level through year end. Margins earned for sales remained constant throughout the year and in line with those of previous years.

Christianson Pipe's main objective for 1999 is to broaden its scope of suppliers. The Company continues to benefit from the exclusive distribution relationship it has with Prudential Steel Ltd. and has recently secured a long-term distribution contract with Prudential's new manufacturing facility in Longview, Washington. Christianson Pipe also intends to develop a larger presence in the used pipe sector. This strategy should lessen reliance on mills for product sold into the secondary market and should interrupt the flow of material to competitors.

CORPORATE GOVERNANCE

IPEC Ltd. is currently an ASE-listed company but, in the interests of good corporate governance, is taking steps to comply with the guidelines developed by The Toronto Stock Exchange. However, compliance has been difficult to fully attain because of the size and newness of the Company.

IPEC Ltd. understands that it is the responsibility of the Board of Directors to manage the business affairs of the Company and to identify principal risks of the Company's business and ensure the implementation of appropriate systems to manage these risks. In addition to its regular duties, other Board responsibilities include the approval of acquisitions and entering into material contracts by the Company.

The Board discharges this responsibility by selecting management and delegating operations to them. Management is accountable for running the business in the best interests of the shareholders and ensuring adequate internal controls are in place to mitigate risk.

The Board consists of six members, four of whom are considered related directors either because of their positions as officers of the Company or because of the significant number of shares they hold in the Company. The fact that the Company has a majority of related directors is a function of the Company's size and the stage of its development. IPEC has grown largely through acquisitions of privately held businesses, two of the founders of which were compensated with shares and elected to the Board. In addition, Mr. Lambert may be considered a related party as a result of the work performed by his law firm for the Company. In this context, the fees are not considered material and as such Mr. Lambert would be considered an unrelated director. Certain directors to be proposed by the Board to the shareholders for election at the Annual General Meeting may also be related directors.

There is no mandatory retirement policy for the directors. The Board of Directors has addressed orientation and education programs for new directors through informal discussions and reference materials. The Board does not have a nomination committee; candidates for nomination to the Board are considered by the Board as a whole.

As part of its duties regarding the stewardship of the Company, the Board is responsible for the development of a strategic plan. The Board intends to finalize the strategic plan and use it as a tool to measure the Company's progress.

AUDIT COMMITTEE

The Audit Committee is composed of three non-management members who review and if appropriate, recommend the financial statements to the Board for approval. The Audit Committee reviews management reporting, internal financial and operating controls, policies and practices with management and the auditors.

COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

The Board of Directors has established this committee, comprising non-management directors, primarily to provide evaluations and recommendations to the Board concerning management structure, compensation of key personnel, review management's compensation plan for the business unit managers and employees, make recommendations regarding appropriate compensation for directors and to develop the Company's approach to matters of corporate governance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

IPEC, with its strong balance sheet and a value-added approach to acquisitions is in a position to continue to remain profitable and to take advantage of currently existing acquisition opportunities.

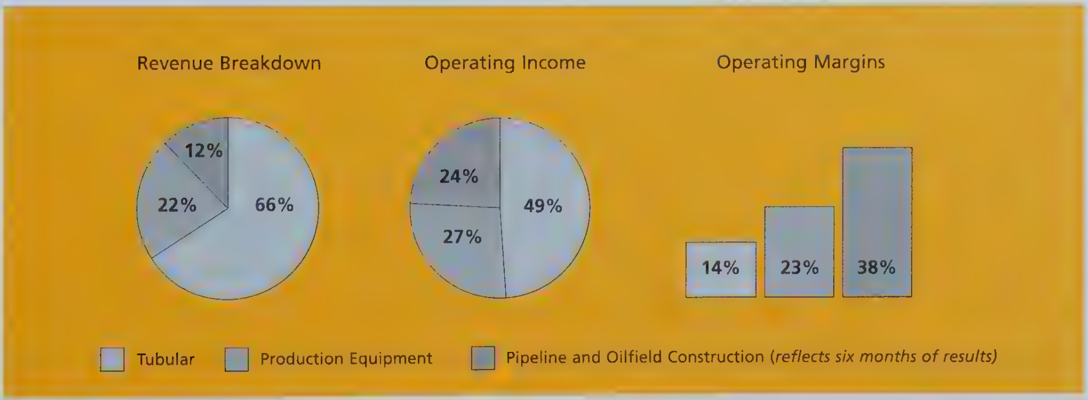
The past year was one of significant accomplishment for IPEC as the Company built upon the groundwork it established in 1997, confirming its strategy of growth through acquisition, consolidation and integration and expanding its capital base through equity placements.

During 1998, IPEC:

- acquired four companies in the first quarter
- raised $7 million in equity in March
- obtained the Baosteel America Inc. pipe distribution contract
- acquired its first pipeline and oilfield construction company in July.

While all aspects of the oil and natural gas industry were impacted by low commodity prices, IPEC generated positive results, albeit lower than expected, despite extremely difficult industry conditions. The Small Diameter Pipeline and Oilfield Construction and Production Equipment Divisions both recorded strong results due to their leverage toward natural gas related projects. The Tubular Division was adversely affected by both low oil prices and product oversupply in the North American market.

The acquisition of two additional pipeline and oilfield construction companies and the completion of related financing in early 1999 firmly establish IPEC in this sector and position the Company for further growth through acquisition and internally generated opportunities.



CONSOLIDATED RESULTS FOR THE YEAR ENDED DECEMBER 31, 1998

Because 1998 represents IPEC's first full year of operations, the Company's financial results for 1998 are not comparable to those of 1997.

Revenue

Consolidated revenue for 1998 was $58.0 million. This is the direct result of the challenging operational environment and IPEC's acquisition activities in each of its business segments during 1998. The companies acquired during 1998 accounted for $57.6 million of IPEC's consolidated revenue for the year.

Operating Income

Operating income was $11.0 million in 1998. Operating income as a percentage of revenue was 19% in 1998.

General and Administrative Expenses

General and administrative expenses were $4.6 million in 1998, 7.6% of total revenue, which is in keeping with IPEC's peer group in the energy services sector. IPEC's continued focus on growth should reduce this percentage over time, as incremental revenue should not increase administration to the extent the initial expansion did in 1998.

Depreciation and Amortization

Depreciation and amortization expenses were $1.1 million for 1998, and resulted from IPEC's acquisition activities which generated goodwill and expanded the Company's depreciable asset base.

Interest Expense

Interest expense was $937,000 for 1998. This reflects the combined effect of increased business activity arising from the acquisitions, financing of specific acquisitions and working capital requirements associated with the acquired businesses.

During 1998, the interest rates paid on the short-term acquisition facility and interim facility were higher than the Company expects to pay in the future pursuant to the credit facilities established in 1999.

Income Taxes

Total income tax expense for 1998 was $515,000 or 19.8% of earnings before taxes. This effective rate reflects the combination of the jurisdictions where IPEC currently operates and the existence and use of prior years' losses to reduce Canadian income tax expense. The acquisitions of J.W. Williams and Commanche Construction were accounted for using the purchase method, which results in goodwill on the write up of the net identifiable assets to fair market value. These amounts are not deductible for tax purposes and establish a carrying value in excess of related tax pools. During 1999, IPEC will

be implementing the accounting recommendations with respect to recording taxes on the financial statements.

Net Earnings and Funds Flow from Operations

IPEC's net earnings for 1998 were $2.1 million or $0.07 per share on a fully diluted basis. Earnings were 3.6% of revenue, 5.8% before the one-time non-cash writedown of inventory. Funds flow from operations was $4.5 million or $0.14 per share on a fully diluted basis.

Investments

Investing activities or acquisitions totalled $17.1 million for 1998. Of the funds expended in 1998, $15.5 million were directed towards acquisitions. Net capital expenditures for 1998 totalled $1.7 million and were used to augment IPEC's existing equipment base and manufacturing facilities in Canada and the United States.

Liquidity

Liquidity, as measured by working capital, increased to $5.9 million at December 31, 1998. Subsequent to year end, the Company's working capital position was strengthened through the combined impact of the equity and bank financings outlined in note 15 to the financial statements.

Due to the nature of the Company's operations and the growth experienced, significant investment was made in non-cash working capital throughout 1998 to fund the acquisition of additional inventory and the growth of accounts receivable. IPEC's working capital position, operating lines of credit, and cash flow from operations are anticipated to be adequate to continue to finance operations throughout 1999.

Capital Resources

In March 1998, IPEC issued 5.6 million Special Warrants at $1.25 per warrant. Subsequently, each warrant was converted into one common share of IPEC. The net proceeds were used to finance the cash component of the acquisition of Christianson Pipe, Grey-Mak and J.W. Williams and to augment working capital. All preferred shares issued on the 1997 acquisition of Chriscor were converted on a 1 for 1 basis to 3.5 million common shares at June 30, 1998.

At December 31, 1998, the Company had operating lines of credit available in Canada and the United States that totalled the Canadian dollar equivalent of $7.25 million, and long-term debt of $6.9 million, $4.7 million of which was related to the acquisition of Commanche Construction.

In March 1999, the Company issued 9.9 million common shares at $1.05 per share via private placement. Concurrent with this equity financing, the Company increased its operating lines of credit to the Canadian dollar equivalent of $10.0 million and established an additional $10.0 million non-revolving facility. These lines are with a Canadian Chartered bank and a U.S. lending institution. These debt facilities are secured by general security agreements and cross guarantees from the Company and its

subsidiaries and bear interest at bank prime in Canada and in the United States plus 0.5% to 0.75%. The net proceeds from the equity and debt financings were used to refinance the above mentioned acquisition facility; assist in the acquisition of Band-Jo Oilfield Services and Silverdale Welding; retire existing long-term debt of IPEC's U.S. operations; and to further augment working capital.

BUSINESS RISKS

IPEC is an active participant in the oilfield services industry and, as such, is impacted primarily by spending or activity levels of oil and natural gas producers, as well as by interest and foreign exchange rates. Any one, or all, of these items can effect IPEC's profitability; accordingly, the Company minimizes its exposure to these factors through effective risk management, diversified service offerings focused on the production side of the well bore, and maintenance of a strong financial position. The establishment of the U.S. lines of credit against a portion of the Company's U.S.-generated revenue reduces the exposure to currency fluctuations.

YEAR 2000

In order to ensure the normal course continuation of operations into the year 2000, the Company established a committee to evaluate the readiness of in-house systems and business issues with respect to IPEC's reliance on third party systems, and to develop the necessary contingency plans to deal with the potential failure in systems over which we have no control. Each of the Company's businesses has unique issues with respect to the Year 2000 Issue. The Tubular Division is reliant on supply of product, transportation, and communications. The Production Equipment Division is reliant on supply of raw material and power generation. The Pipeline and Oilfield Construction Division is labour intensive and reliant on fuel and communications. Each division is developing contingency plans to deal with business risk in third party systems. The Company has allocated the resources to deal with issues within its control and expenses all costs as period costs in the period they are incurred. IPEC's risk with respect to year 2000 issues is primarily driven by third parties as areas identified necessary with respect to its internal operations have, or are being, addressed.

OUTLOOK

Initial forecasts for industry conditions in 1999 were for continued low oil prices and stable to slightly increasing natural gas prices. While this scenario has largely held for natural gas, oil prices have risen sharply from an average WTI price of US$11.31 per barrel in December to between US$17.50 and US$18.00 in late April. This improvement has caused optimism among oil producers and may, if sustainable, result in renewed development and production activity. IPEC, with its strong balance sheet and a value-added approach to acquisitions, is in a position to continue to remain profitable and to take advantage of currently existing acquisition opportunities as well as potential pipeline and facilities projects arising from strengthening oil prices.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of IPEC Ltd. is responsible for the preparation of all the information included in this Annual Report. The consolidated financial statements have been prepared in accordance with the generally accepted accounting principles and, where necessary, include amounts based on management's informed judgements and estimates. Financial information included elsewhere in this report is consistent with the consolidated financial statements.

Management maintains an appropriate system of accounting and administrative controls to provide reasonable assurance that the transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained to provide reliable financial statements. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations.

KPMG, Chartered Accountants, appointed by the shareholders, have audited the consolidated financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee reviews the financial content of the Annual Report and meets regularly with management and KPMG to discuss internal controls, accounting, auditing and financial matters. The Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements.

Chairman of the Board

Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of IPEC Ltd. as at December 31, 1998 and 1997 and the consolidated statements of earnings (loss) and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 21, 1999

CONSOLIDATED BALANCE SHEETS

As at December 31	1998	1997
Assets		
Current assets		
Cash	$ –	$ 38,287
Accounts receivable	11,181,549	700,806
Inventories (note 4)	6,488,143	453,063
	17,669,692	1,192,156
Capital assets (note 5)	10,824,447	267,265
Product development costs (note 6)	44,737	136,529
Goodwill; net of amortization of $121,005	4,066,599	–
	$ 32,605,475	$ 1,595,950
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Bank indebtedness (note 7)	$ 5,830,115	$ –
Accounts payable and accrued liabilities	5,385,200	712,962
Due to related parties (note 8)	1,260,605	50,000
Current portion long-term debt (note 9)	670,638	–
	13,146,558	762,962
Long-term debt (note 9)	6,981,550	1,320,936
Shareholders' equity (deficiency):		
Common shares (note 10)	10,911,982	218,644
Preferred shares (note 10)	–	189,033
Cumulative translation adjustment	369,525	–
Retained earnings (deficit)	1,195,860	(895,625)
	12,477,367	(487,948)
	$ 32,605,475	$ 1,595,950

See accompanying notes to the consolidated financial statements. Commitments (note 11) Subsequent events (note 15)

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

Years ended December 31	1998	1997
Sales		
- tubulars	$ 38,492,769	$ –
- oilfield equipment	12,621,859	685,564
- pipeline and oilfield construction	6,902,062	–
	58,016,690	685,564
Cost of sales		
- tubulars	33,055,222	–
- oilfield equipment	9,684,371	353,265
- pipeline and oilfield construction	4,296,768	–
	47,036,361	353,265
Operating Income	10,980,329	332,299
Expenses:		
General and administrative	4,590,752	408,739
Depreciation	1,027,911	67,781
Amortization of goodwill	121,005	–
Interest	937,000	19,179
Writedown of inventory (note 4)	1,696,771	–
	8,373,439	495,699
Earnings (loss) before taxes	2,606,890	(163,400)
Income taxes (note 12):		
Current	916,101	–
Deferred (recovery)	(400,696)	–
Net earnings (loss)	2,091,485	(163,400)
Deficit, beginning of year	(895,625)	(732,225)
Retained earnings (deficit), end of year	$ 1,195,860	$ (895,625)
Earnings (loss) per share (note 13)		
- basic	$ 0.09	$ (0.04)
- fully diluted	$ 0.07	$ (0.04)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31	1998	1997
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ 2,091,485	$ (163,400)
Items not involving cash:		
Depreciation and amortization	1,148,916	67,781
Writedown of inventory	1,696,771	–
Deferred income taxes	(400,696)	–
Funds from (used in) operations	4,536,476	(95,619)
Net change in non-cash working capital	(9,165,680)	(162,061)
	(4,629,204)	(257,680)
Financing:		
Long-term debt	4,743,171	97,672
Due to related parties	384,949	278,444
Long-term lease incentive	288,735	–
Issue of common shares:		
For cash (net of issue costs)	6,280,346	407,671
On acquisitions (net of issue costs)	4,191,359	–
On exercise of stock options	32,600	–
On conversion of preferred shares	189,033	–
Conversion of preferred shares	(189,033)	–
	15,921,160	783,787
Investments:		
Business acquisitions	(15,450,292)	26,929
Capital asset acquisitions	(2,520,272)	(243,445)
Capital asset disposals	830,795	–
Product development costs	(20,589)	(73,678)
	(17,160,358)	(290,194)
Increase (decrease) in cash position	(5,868,402)	235,913
Cash position*, beginning of year	38,287	(197,626)
Cash position*, end of year	$ (5,830,115)	$ 38,287

* Cash position is defined as cash less bank indebtedness.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1998 and 1997

1. FORMATION AND BUSINESS OF THE COMPANY

IPEC Ltd. (the "Company") is a publicly traded company listed on The Alberta Stock Exchange and was incorporated on August 1, 1996. These financial statements contain all of the consolidated subsidiaries of the Company. The comparative figures for financial statement purposes represent those of Chriscor Production Enhancement Technologies Inc. ("Chriscor").

Effective November 6, 1997, IPEC Ltd., a publicly traded company listed on The Alberta Stock Exchange ("ASE"), acquired all of the issued and outstanding common shares of Chriscor through the issue of 4,000,000 common and 3,500,000 preferred shares of IPEC Ltd. As a result of this acquisition, the previous shareholders of Chriscor acquired more than 50% of the issued and outstanding shares of IPEC Ltd. Consequently, this business combination was accounted for as a reverse take-over whereby Chriscor was deemed to have acquired IPEC Ltd. The purchase price, for accounting purposes, is $405,071 and is based on the fair values of the assets and liabilities of IPEC Ltd. acquired which were as follows:

Assumed liabilities:		
Non-cash working capital deficiency	$	(26,929)
Net liabilities before cash		(26,929)
Cash position		432,000
Net cost	$	405,071
Consideration:		
4,000,000 Common shares	$	216,038
3,500,000 Preferred shares		189,033
	$	405,071

2. SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of Presentation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

(ii) Inventories:

Inventories are valued at the lower of cost and net realizable value.

(iii) Capital assets:

Capital assets are stated at cost. Depreciation is provided for using the following methods and annual rates:

Construction equipment	declining balance	10%
Equipment	declining balance	15%
Automotive equipment	declining balance	30%
Buildings	declining balance	5%
Furniture and fixtures	declining balance	20%
Leasehold improvements	straight-line	5 years

(iv) Product development and patent costs:

The Company has capitalized material, labour and overhead costs associated with the design, construction and testing of products. These costs are being amortized on a straight-line basis over three years or charged to operations if the product requires no further development or has been discontinued.

(v) Revenue recognition:

On construction contracts, revenue is accrued using the percentage of completion method relative to total costs incurred as the work is performed. Provision is made for the total anticipated loss when the estimate of total costs on a contract indicates a loss. Revisions in cost and profit estimates during the course of the work are reflected in the period in which the need for the revision becomes known. Some contracts contain incentive and/or penalty provisions based on performance relative to established targets. Such awards or penalties are included in revenue or cost estimates when amounts can reasonably be determined.

All other revenue is recognized at the time products are shipped or services are rendered under binding sales agreement to the customer.

Provision for potential warranty claims is provided for at the time revenue is recognized, based on warranty terms and claims experience.

(vi) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Management believes its estimates to be appropriate, however, actual results could differ from these estimates.

(vii) Goodwill:

Goodwill represents the excess of the purchase price over the net identifiable assets on acquisitions and is amortized on a straight-line basis over 20 years unless a writedown is required to reflect permanent impairment. A permanent impairment in goodwill is determined by comparison of the carrying value of unamortized goodwill and the associated operating costs with undiscounted cash flow of the related business.

(viii) Foreign currency translation adjustment:

The accounts of the Company's self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the year-end exchange rate and revenue and expenses are translated at average exchange rates for the period. Gains and losses arising from the translation of the financial statements of the foreign operations are deferred in a "cumulative translation adjustment" account in shareholders' equity.

(ix) Income taxes:

The Company provides for income taxes on the tax allocation basis. Accordingly deferred income tax is recorded in the statement of earnings in order to recognize the income tax effect of timing differences between the value of assets and liabilities recorded for tax and financial accounting purposes.

(x) Comparative figures:

Certain comparative figures have been reclassified to conform with the current period's presentation.

3. BUSINESS COMBINATIONS

(a) Acquisition of the operating assets of Christianson Pipe Ltd.:

Pursuant to an agreement dated February 27, 1998, the Company purchased from a related party of the Company the operating assets of Christianson Pipe Ltd. ("CPL"), effective January 1, 1998, for an aggregate purchase price of $5,202,085 payable by the issuance of 2,980,800 common shares of the Company and the payment of cash in the aggregate amount of $1,476,085, the assumption of CPL's current liabilities, and $387,213 of promissory note indebtedness of CPL. The Company repaid $200,000 of the promissory note indebtedness. Due to the related party nature of the transactions, the acquisition of the operating assets of CPL were measured at the carrying amounts whereby the assets and liabilities acquired were recorded in the consolidated balance sheet at their historical carrying values. The purchase price was allocated as follows:

Non-cash working capital	$ 1,105,645
Capital assets	1,928,381
	3,034,026
Long-term debt	387,213
Net assets before cash	2,646,813
Cash position	(261,324)
Net cost	$ 2,385,489
Consideration:	
Cash	$ 1,476,085
Common shares	909,404
	$ 2,385,489

(b) Acquisition of IPEC (Cyprus) Limited:

Pursuant to an agreement dated February 27, 1998, the Company purchased from shareholders of the Company, effective January 1, 1998, 100% of the outstanding ordinary shares of IPEC (Cyprus) Limited in exchange for the issuance of 1,440,000 common shares of the Company. In addition, the Company has agreed to issue up to 4,320,000 additional common shares to the shareholders of IPEC (Cyprus) Limited, provided certain earnings levels are

achieved. Due to the related party nature of the transaction, the acquisition of IPEC (Cyprus) Limited was measured at the carrying amounts whereby the assets and liabilities were recorded in the consolidated balance sheet at their historical carrying values, being a current payable of $1,700.

(c) Acquisition of Grey-Mak Pipe, Inc.:
Pursuant to an agreement dated February 27, 1998, the Company purchased from a shareholder of the Company, effective January 1, 1998, 100% of the outstanding common shares of Grey-Mak Pipe, Inc. ("Grey-Mak") for an aggregate purchase price of $4,380,000 (U.S.) payable by the issuance of 3,896,400 common shares of the Company and the payment of cash in the amount of $876,000 (U.S.). Due to the related party nature of the transaction, the acquisition of Grey-Mak was measured at the carrying amounts whereby the assets and liabilities were recorded in the consolidated balance sheet at their historical carrying values. The purchase price was allocated as follows:

Non-cash working capital	$ 2,418,513
Capital assets	1,414,285
Net assets before cash	3,832,798
Cash position	(1,258,432)
Net cost	$ 2,574,366
Consideration:	
Cash	$ 1,246,548
Common shares	1,327,818
	$ 2,574,366

(d) Acquisition of J.W. Williams, Inc.:
Pursuant to an agreement dated February 27, 1998, the Company purchased, effective January 1, 1998, 100% of the outstanding common shares of J.W. Williams, Inc. ("Williams") for an aggregate purchase price of $2,096,000 (U.S.) payable by the issuance of 1,864,600 common shares of the Company and the payment of cash in the amount of $419,200 (U.S.). Upon closing the Company advanced $254,000 (U.S.) to Williams to pay out indebtedness related to Williams obtaining the surrender of options held by employees prior to the acquisition. The purchase was accounted for using the purchase method with the purchase price allocated as follows:

Non-cash working capital	$ 774,787
Capital assets	3,070,410
Goodwill	593,336
	4,438,533
Long-term debt	(859,298)
Net assets before cash	3,579,235
Cash position	(290,521)
Net cost	$ 3,288,714
Consideration:	
Cash	$ 957,964
Common shares	2,330,750
	$ 3,288,714

(e) Acquisition of Commanche Construction Ltd.
Pursuant to the Share Purchase Agreement dated July 21, 1998 the Company purchased, effective July 1, 1998, 100% of the outstanding common shares of Commanche Construction Ltd. for an aggregate purchase price of $5,469,000 payable entirely in cash. The purchase was accounted for using the purchase method with the purchase price allocated as follows:

Non-cash working capital	$ (426,323)
Capital assets	3,000,000
Goodwill	3,535,000
	6,108,677
Long-term debt	715,465
Net assets before cash	5,393,212
Cash position	225,844
Net cost	$ 5,619,056
Consideration:	
Cash (including transaction costs)	$ 5,619,056

4. INVENTORIES

	1998	1997
Raw materials	$ 567,003	$ 114,469
Work in progress	988,932	46,932
Finished goods	4,932,208	291,662
	$ 6,488,143	$ 453,063

During 1998 the Company wrote down finished goods inventory of $1,696,771.

5. CAPITAL ASSETS

December 31, 1998	Cost	Accumulated Depreciation	Net Book Value
Land	$ 1,581,311	$ -	$ 1,581,311
Buildings	4,917,261	1,946,137	2,971,124
Furniture and fixtures	1,171,445	547,169	624,276
Equipment	6,209,224	4,385,327	1,823,897
Construction equipment	4,199,782	1,335,377	2,864,405
Automotive equipment	1,487,237	945,862	541,375
Leasehold improvements	460,562	42,503	418,059
	$ 20,026,822	$ 9,202,375	$ 10,824,447

December 31, 1997	Cost	Accumulated Depreciation	Net Book Value
Furniture and fixtures	$ 173,415	$ 28,473	$ 144,942
Equipment	57,618	26,685	30,933
Leasehold improvements	92,087	697	91,390
	$ 323,120	$ 55,855	$ 267,265

6. PRODUCT DEVELOPMENT COSTS

The fair value of product development costs could be substantially higher or lower than the amount capitalized, as the value is dependent on the future earnings potential of the related projects.

December 31, 1998	Cost	Accumulated Depreciation	Net Book Value
Development costs	$ 124,744	$ 124,744	$ –
Patents	150,817	106,080	44,737
	$ 275,561	$ 230,824	$ 44,737

December 31, 1997	Cost	Accumulated Depreciation	Net Book Value
Development costs	$ 139,302	$ 55,614	$ 83,688
Patents	52,841	–	52,841
	$ 192,143	$ 55,614	$ 136,529

7. BANK INDEBTEDNESS

Bank indebtedness is provided by several financial institutions and bears interest at the prime lending rate plus 0.375% to 0.75%. Security consists of a general assignment of book debts and general security agreements on all of the assets of the Company and each of its subsidiaries.

8. NOTES PAYABLE TO RELATED PARTY

These amounts are repayable on demand and bear interest at rates from bank prime to 12% per annum. These amounts were repaid in full on March 3, 1999.

9. LONG-TERM DEBT

	1998	1997
Bank loans	$ 973,378	$ –
Acquisition line	4,700,000	–
Capital leases	1,106,655	–
Related parties	583,420	1,320,936
Long-term lease incentive	288,735	–
	7,652,188	1,320,936
Less current portion	(670,638)	–
	$ 6,981,550	$ 1,320,936

Interest on long-term debt of $277,198 during 1998.

Specific mortgages and security interests on equipment of one of the Company's United States based subsidiaries secure the bank loans. These loans are denominated in U.S. dollars and bear interest at rates from bank prime plus 0.5% to 1%.

The acquisition line is repayable upon demand and bears interest at the banker's acceptance rate plus 5% per annum. Security for this loan includes a first fixed and floating charge debenture over a specific subsidiary and a second fixed and floating charge debenture over the Company. Although this loan is a demand facility, it has been classified as long-term debt at December 31, 1998, as it was re-financed subsequent to year end with a newly established term loan (note 15).

Capital leases with interest rates varying from 7.10% to prime plus 1.25% are secured by specific charges on the equipment financed.

The amount due to related parties is unsecured with no fixed terms of repayment. $396,208 of the amount outstanding is non-interest bearing and the remaining $187,212 incurs interest at 10% per annum. The related parties have indicated that they have no intention of demanding repayment in the current period.

Estimated principal repayments within the next five years exclusive of the acquisition line are as follows:

1999	$ 604,638
2000	473,952
2001	276,206
2002	537,037
2003	188,200
	$ 2,080,033

10. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares issuable in series

3,500,000 Convertible preferred shares Series 1

(b) Issued:

Common Shares	Number of Shares	Amount
Balance, December 31, 1996	2,000,000	$ 6
Public Offering	1,500,000	–
Issued on purchase of Chriscor (note 1)	4,000,000	216,038
Issued on exercise of stock options	13,000	2,600
Balance, December 31, 1997	7,513,000	218,644
Issued on acquisition of companies or assets (note 3)	10,181,800	4,191,359
Issued pursuant to the Special Warrants offering net of issue costs	5,600,000	6,280,346
Issued on exercise of stock options	163,000	32,600
Conversion of preferred shares	3,500,000	189,033
Balance December 31, 1998	26,957,800	$ 10,911,982

Preferred Shares		
Issued on purchase of Chriscor	3,500,000	$ 189,033
Balance, December 31, 1997	3,500,000	189,033
Conversion to common shares	(3,500,000)	(189,033)
Balance December 31, 1998	–	$ –

(c) Escrow agreements:

9,760,800 common shares are subject to escrow agreements which provides for releases from escrow upon the attainment of certain performance conditions by the Company and its subsidiaries.

3,990,934 common shares are subject to escrow agreements which provides for releases from escrow over a period of three years.

(d) Stock options:

The Company has an incentive stock option plan for employees, officers and directors. At December 31, 1998, there were 2,650,000 options to acquire common shares outstanding with an exercise price of $0.20 expiring on various dates to November 5, 2002 and 1,575,000 options with an exercise price of $1.25 per share expiring on various dates to March 31, 2003. During 1998, 1,726,000 options were granted (1997 – 1,100,000) and 163,000 were exercised (1997 – 13,000).

11. OPERATING LEASE COMMITMENTS

The Company has various leases on its office premises as well as fleet vehicles. The Company is contingently liable for all payments due pursuant to these leases until the obligations are met. The total future commitments under these lease agreements are estimated to be approximately $504,000 per year.

The Company subleased a part of the office space to a third party for rent totalling $11,533 per month.

12. INCOME TAXES

The Company's consolidated income tax provision is based on rates and allowances applicable to each of the income tax jurisdictions in which the Company operates. The consolidated tax provision differs from that expected by applying the combined Canadian federal and provincial income tax rate to consolidated earnings before income taxes for the following reason:

	1998	1997
Expected combined Canadian federal and provincial income tax rate	44.62%	44.46%
Expected provision for income taxes based on the above rate	$ 1,163,194	$ (72,647)
Increase (decrease) in income taxes resulting from:		
Differences in foreign income tax rates	(456,068)	–
Non-deductible items	61,892	–
Loss carry forward utilization	(147,246)	–
Unrecognized benefit of tax losses	–	72,647
Other	(106,367)	–
Provision	$ 515,405	$ –
Income tax consisting of:		
Current	916,101	–
Deferred	(400,696)	–
	$ 515,405	$ –

The Company has non-capital losses for income tax purposes which may be applied against the taxable income of future years. These non-capital losses will expire as follows:

2003	$ 163,000
2004	230,000

The potential benefit of the above losses and timing differences has not been recognized in the financial statements other than the writedown of inventory in a U.S. subsidiary which will be recognized in 1999.

13. PER SHARE INFORMATION

Per common share amounts are calculated based on the weighted average number of common shares outstanding during 1998 and 1997 of 22,664,655 and 4,528,862 respectively.

Fully diluted amounts reflect the exercise of all outstanding options and warrants and an imputed after-tax rate of 5%.

14. FINANCIAL INSTRUMENTS

The carrying amount of cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximates fair value due to the short-term maturities of these instruments. The Company does not have any significant concentration of credit risk with counterparties.

15. SUBSEQUENT EVENTS

(a) Acquisition of Band-Jo Oilfield Services Ltd.:
Pursuant to a Share Purchase Agreement dated August 7, 1998, the Company purchased effective January 1, 1999, 100% of the outstanding common shares of Band-Jo Oilfield Services Ltd. in consideration for the issuance of 2,645,000 common shares of the Company and the payment of cash in the amount of $3.51 million.

The purchase will be accounted for using the purchase method with the purchase price allocated as follows:

Non-cash working capital	$ 786,272
Capital assets	2,420,000
Goodwill	3,144,454
	6,350,726
Long-term debt	(986,599)
Net assets before cash and purchase price adjustment	5,364,127
Bank indebtedness	147,373
Net cost	$ 5,511,500
Consideration:	
Cash (including transaction costs)	$ 3,660,000
Common shares	1,851,500
	$ 5,511,500

(b) Acquisition of Silverdale Welding Ltd.:
Pursuant to a Share Purchase Agreement dated August 7, 1998, the Company purchased effective January 1, 1999, 100% of the outstanding common shares of Silverdale Welding Ltd. in consideration for the issuance or 2,212,500 common shares of the Company and the payment of cash in the amount of $4.425 million.

The purchase will be accounted for using the purchase method with the purchase price allocated as follows:

Non-cash working capital	$ 166,009
Capital assets	4,050,000
Goodwill	2,064,468
	6,280,447
Long-term debt	(23,021)
Net assets before cash	6,257,456
Cash position	(133,706)
Net cost	$ 6,123,750
Consideration:	
Cash (including transaction costs)	$ 4,575,000
Common shares	1,548,750
	$ 6,123,750

(c) Equity Issue:
On March 3, 1999, the Company issued 9,928,810 common shares at a price of $1.05 per common share in a private placement. The proceeds of the placement of $10,425,250 less estimated issue costs of $376,000 were used to fund the acquisitions of Commanche described in note 3(e), Silverdale and Band-Jo (note 15). The shares are subject to a one-year hold period.

(d) Bank Financing:
Subsequent to year end, the Company established the following borrowing facilities with a Canadian financial institution.
(i) $10 million demand revolving operating loan bearing interest at the prime rate plus 0.50% per annum; and
(ii) $10 million demand non-revolving capital loan bearing interest at the prime rate plus 0.75% per annum, repayable in 60 equal monthly installments commencing on May 3, 1999, the date of initial advance and maturing on May 3, 2004.

The bank financing has replaced all the Company's previous lines of credit with the exception of certain capital lease obligations.

(e) Pro-forma Balance Sheet:
The following is a condensed pro-forma balance sheet giving effect to the subsequent events described above as if they had occurred on December 31, 1998.

Proceeds from the equity and bank financing were used to acquire Band-Jo and Silverdale, and refinance the acquisition facility. The funds were also used to repay certain shareholder loans and to augment working capital.

	1998
Assets	
Cash	$ 147,373
Current assets	20,533,509
Property, plant and equipment	17,294,447
Goodwill	9,275,521
Other	447,337
	$ 47,698,187
Liabilities and Shareholders' Equity	
Bank indebtedness	$ –
Current liabilities	10,822,770
Long-term debt	10,948,550
Shareholders' equity	25,926,867
	$ 47,698,187

16. SEGMENTED INFORMATION

During 1997 the Company was involved in one industry segment, namely production equipment in Canada.

Industry Segments	Tubulars	Production Equipment	Pipeline and Oilfield Construction	Head Office	Consolidated
Sales					
External	$ 38,492,769	$ 12,621,859	$ 6,902,062	$ –	$ 58,016,690
Cost of sales					
External	33,055,222	9,684,371	4,296,768	–	47,036,361
Operating income	5,437,547	2,937,488	2,605,294	–	10,980,329
Writedown of inventory	1,483,800	212,971	–	–	1,696,771
Depreciation	159,372	484,644	288,823	95,072	1,027,911
Amortization				121,005	121,005
Subtotal	$ 3,794,375	$ 2,239,873	$ 2,316,471	$ (216,077)	8,134,642
General & administrative					4,590,752
Interest expense					937,000
Taxes					515,405
Net earnings					$ 2,091,481
Identifiable assets	$ 12,453,949	$ 8,355,118	$ 10,097,449	$ 1,698,959	$ 32,605,475

Geographic Segments	Canada	Other	Eliminations	Consolidated
Sales				
External	$ 14,441,411	$ 43,575,279	$ –	$ 58,016,690
Inter-segment	–	6,937,949	(6,937,949)	–
	14,441,411	50,513,228	(6,937,949)	58,016,690
Cost of sales				
External	10,702,321	36,334,040	–	47,036,361
Inter-segment	–	6,937,949	(6,937,949)	–
	10,702,321	43,271,989	(6,937,949)	47,036,361
Operating income	3,739,090	7,241,239	–	10,980,329
Writedown of inventory	212,971	1,483,800	–	1,696,771
Depreciation	652,584	375,327	–	1,027,911
Amortization	121,005	–	–	121,005
Subtotal	$ 2,752,530	$ 5,382,112	$ –	$ 8,134,642
Identifiable assets	$ 15,411,811	$ 17,193,664	$ –	$ 32,605,475

17. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CORPORATE INFORMATION

DIRECTORS

Martin A. Lambert [2]
Chairman of the Board
Partner and Chief Executive Officer
Bennett Jones, Calgary, Alberta

John Clarkson [1] [2]
Clearwater Capital, Calgary, Alberta

Dwayne Howrish
IPEC Ltd., Casper, Wyoming

Robert L. Christianson
IPEC Ltd., Calgary, Alberta

John Reynolds [1]
Lime Rock Management LP, Westport, Connecticut

J. R. Kingsley Ward [1] [2]
Partner, Kinghaven Capital Corporation, Toronto, Ontario

[1] Audit Committee
[2] Compensation and Corporate Governance Committee

EXECUTIVE MANAGEMENT

R. T. (Tim) Swinton
Acting Chief Executive Officer

Paul M. Boechler
Vice President Finance, Chief Financial Officer
and Corporate Secretary

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